

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN
MILWAUKEE DIVISION

CITY OF BIRMINGHAM RETIREMENT
AND RELIEF SYSTEM, Individually and On
Behalf of All Others Similarly Situated,

Plaintiff,

v.

A.O. SMITH CORPORATION, AJITA
RAJENDRA, KEVIN WHEELER, and
JOHN KITA,

Defendants.

Case No.:

CLASS ACTION

DEMAND FOR JURY TRIAL

**CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS**

Plaintiff City of Birmingham Retirement and Relief System, individually and on behalf of all others similarly situated, alleges the following upon personal knowledge as to allegations specifically pertaining to Plaintiff and, as to all other matters, upon the investigation of counsel, which included: (a) review and analysis of public filings with the United States Securities and Exchange Commission (“SEC”) made by A.O. Smith Corporation (“A.O. Smith” or the “Company”) and other related parties and non-parties; (b) review and analysis of press releases and other publications disseminated by certain of the Defendants; (c) review of news articles, shareholder communications, conference calls and postings on the Company’s website concerning the Company’s public statements; and (d) review of other publicly available information concerning A.O. Smith and the Individual Defendants (as defined below).

I. NATURE OF THE ACTION

1. This is a federal securities class action brought on behalf of all persons or entities that purchased or otherwise acquired A.O. Smith common stock from July 26, 2016 and May 16, 2019, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”). Plaintiff alleges that Defendants A.O. Smith, Ajita Rajendra, Kevin Wheeler, and John Kita violated the Exchange Act by publishing false and misleading statements to artificially inflate the Company’s stock price.

2. Defendant A.O. Smith is a leading manufacturer and marketer of water heaters and boilers. It maintains two primary operating segments: (1) North America; and (2) Rest of World. The Rest of World segment primarily consists of the Company’s operations in China, which accounted for approximately one-third of the Company’s total sales in 2018 and almost the entirety of its Rest of World segment sales.

3. A.O. Smith has operated in China for over 20 years. In recent years, it has become an increasingly critical market by which to measure the Company’s business and prospects. Not only does China present one of the largest markets for water heaters and boiler products in the world, A.O. Smith is generally thought to command a price premium in the country due to its purportedly superior product offerings. In 2018, the Company boasted “record” sales of \$3.2 billion, which it stated was “primarily” due to “higher sales of water treatment products in China,” in addition to pricing actions in the United States. For the year, the Company’s China sales exceeded \$1 billion.

4. Between 2015 and 2018, A.O. Smith’s net sales in China grew by over 36%. However, as would only later be revealed, A.O. Smith fueled this growth through an undisclosed partner in China, Jiangsu UTP Supply Chain (“UTP”). According to later-revealed analyst allegations, A.O. Smith used UTP to inflate its sales figures, engage in “channel stuffing” (*i.e.*,

forcing unwanted inventory through a controlled distribution channel) and hide the deteriorating business trends it was experiencing in China.

5. Beginning in 2015, China experienced a significant slowdown in its real estate market, which had follow-on effects for the sale of new housing appliances such as the water heaters and boilers manufactured by A.O. Smith. As a result, the growth that A.O. Smith had been experiencing in China, especially in terms of the Company's profit margins, became unsustainable as A.O. Smith struggled to maintain its pricing power against lower-cost competitors, particularly as it attempted to expand into so-called "second tier" Chinese cities. In order to mitigate adverse trends in an increasingly difficult market environment, A.O. Smith used its undisclosed relationship with UTP to inflate its gross margins and mask its actual China revenue and earnings slowdown through distributor-financed channel stuffing. By some estimates, UTP accounted for up to 75% of the Company's product sales in China during the Class Period.

6. The truth began to emerge on April 30, 2019, when A.O. Smith was forced to disclose disappointing financial results for its China operations. The primary reasons for the disappointing results were adverse business trends in China and plummeting Chinese sales, which had been masked by Defendants' prior misstatements. Quarterly sales in A.O. Smith's Rest of World segment fell 21% to \$232.1 million, including an 18% decline in Chinese sales on a local currency basis. Even more shocking, quarterly earnings for the segment fell more than 65% year-over-year to only \$12.3 million. On this news, the price of A.O. Smith common stock fell 6% to \$52.57 per share on abnormally high volume of over 4.8 million shares.

7. Then, on May 16, 2019, J Capital Research USA LLC issued a scathing report on A.O. Smith's China operations and undisclosed relationship with UTP (the "J Capital Report"). The extensive 66-page report charged A.O. Smith with inflating its sales and earnings figures and

concealing adverse business trends in China through its undisclosed distributor relationship with UTP. The report stated that “UTP may be responsible for as much as *75% of AOS China sales.*” The report also stated that A.O. Smith’s purported \$539 million in cash in China had been tied up in the scheme. On this news, the price of A.O. Smith common stock declined. The stock price fell to close at \$43.26 per share on May 20, 2019, 36% below the Class Period high of more than \$68 per share.

8. As a result of Defendants’ wrongful acts and omissions, Plaintiff and the Class purchased A.O. Smith common stock at artificially inflated prices and suffered significant losses and were damaged thereby.

II. JURISDICTION AND VENUE

9. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

11. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this District. Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District. Additionally, the principal executive offices of A.O. Smith are located within this District in Milwaukee, Wisconsin.

III. CLASS ACTION ALLEGATIONS

12. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and 23(b)(3) on behalf of a Class consisting of all those who purchased or

otherwise acquired A.O. Smith common stock during the Class Period. Excluded from the Class are Defendants, the officers and directors of A.O. Smith, members of their immediate families and their legal representatives, heirs, agents, affiliates, successors or assigns, Defendants' liability insurance carriers, and any affiliates or subsidiaries thereof, and any entity in which Defendants or their immediate families have or had a controlling interest.

13. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, A.O. Smith shares were actively traded on the New York Stock Exchange (the "NYSE"). As of May 16, 2019, there were over 141 million shares of A.O. Smith common stock outstanding. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Throughout the Class Period, A.O. Smith common stock was actively traded on the NYSE, an open and efficient market, under the symbol "AOS." Millions of A.O. Smith shares were traded publicly during the Class Period on the NYSE. Record owners and other members of the Class may be identified from records maintained by A.O. Smith and/or its transfer agents and may be notified of the pendency of this action by mail, using a form notice similar to that customarily used in securities class actions.

14. Plaintiff's claims are typical of Class members' claims, as all members of the Class were similarly affected by Defendants' wrongful conduct in violation of federal laws as complained of herein.

15. Plaintiff will fairly and adequately protect Class members' interests and has retained competent counsel experienced in class actions and securities litigation. Common questions of law and fact exist as to all Class members and predominate over any questions solely

affecting individual Class members. Among the questions of fact and law common to the Class are:

- (a) Whether the federal securities laws were violated by Defendants' acts and omissions as alleged herein;
- (b) Whether Defendants participated in and pursued the common course of conduct complained of herein;
- (c) Whether documents, press releases, and other statements disseminated to the investing public and the Company's stockholders during the Class Period misrepresented material facts about the business, finances, and prospects of A.O. Smith;
- (d) Whether statements made by Defendants to the investing public during the Class Period misrepresented and/or omitted to disclose facts about the business, finance, value, and performance of A.O. Smith;
- (e) Whether the market price of A.O. Smith common stock during the Class Period was artificially inflated due to the material misrepresentations and failures to correct the material misrepresentations complained of herein; and
- (f) The extent to which the members of the Class have been damaged and the proper measure of damages.

16. A class action is superior to all other available methods for the fair and efficient adjudication of this action because joinder of all Class members is impracticable. Furthermore, the damage suffered by some individual Class members may be relatively small so that the burden and expense of individual litigation make it impossible for such members to individually redress the wrong done to them. There will be no difficulty in the management of this action as a class action.

IV. PARTIES

17. Plaintiff City of Birmingham Retirement and Relief System ("City of Birmingham") is a public pension fund that manages retirement funds of current and retired civil service employees, elected officials, and appointed employees in the City of Birmingham,

Alabama. As of the start of the second quarter of 2019, City of Birmingham oversaw approximately \$1 billion in assets for more than 7,300 members. As set forth in the attached certification, City of Birmingham bought A.O. Smith common stock during the Class Period and suffered damages as a result of the violations of the federal securities laws alleged herein.

18. Defendant A.O. Smith is a Milwaukee-based manufacturer of gas and electric water heaters, boilers, tanks and water treatment products. It has significant operations overseas, and in particular in China.

19. Defendant Ajita Rajendra (“Rajendra”) has served as the Executive Chairman of A.O. Smith since September 2018. Previously, he served as the Chief Executive Officer (“CEO”) and Chairman of the Board of Directors of A.O. Smith (the “Board”) since April 2014.

20. Defendant Kevin Wheeler (“Wheeler”) has served as CEO of A.O. Smith since September 2018, its President since May 2017 and a director since July 2017. He previously served as the Company’s Chief Operating Officer (“COO”), and before that was the Company’s General Manager of North America, India and Europe water heating.

21. Defendant John Kita (“Kita”) served as Chief Financial Officer (“CFO”) of A.O. Smith throughout the Class Period until his retirement in May 2019.

22. Defendants Rajendra, Wheeler and Kita are referred to herein as the “Individual Defendants.”

23. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of A.O. Smith, were privy to confidential, proprietary and material adverse non-public information concerning A.O. Smith, its operations, finances, financial condition and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board

of directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

24. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were “controlling persons” within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of A.O. Smith’s business.

25. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts, and through them, to the investing public. The Individual Defendants were provided with copies of the Company’s reports and publicly disseminated documents alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

26. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose securities were, and are, registered with the SEC pursuant to the Exchange Act, and were traded on the NYSE and governed by the federal securities laws, the Individual Defendants had a duty to disseminate promptly accurate and truthful information with respect to A.O. Smith’s financial condition and performance, growth, operations, financial

statements, business, products, markets, management, earnings, and present and future business prospects, to correct any previously issued statements that had become materially misleading or untrue, so the market price of A.O. Smith's common stock would be based on truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

27. The Individual Defendants are liable as participants in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of A.O. Smith's publicly traded common stock by disseminating materially false and misleading statements and/or concealing material adverse facts.

V. DEFENDANTS' FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

28. The Class Period begins on July 26, 2016. On that date, A.O. Smith issued a press release announcing "record second quarter" net earnings of \$87.1 million. The press release claimed that the strong results were driven in large part by the success of A.O. Smith's China operations. The press release continued in pertinent part:

"Our strong year-over-year earnings growth of 23 percent continued to demonstrate solid execution by our business teams in North America and China," noted Ajita G. Rajendra, chairman and chief executive officer.

"We achieved year-over-year sales growth in China of 16 percent in local currency in the second quarter thanks to increased sales of water heating and water treatment products," Rajendra added.

* * *

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately eight percent in the second quarter of 2016 to \$239.8 million from \$221.3 million in the year-ago quarter. *Continued strong customer demand for the company's premium water heating and water treatment products*

drove China sales nearly 16 percent higher in local currency and approximately 10 percent higher as measured in U.S. dollars.

Operating earnings for this segment were \$33.0 million compared with \$30.9 million earned in the 2015 second quarter. The impact to profits from higher China sales was partially offset by higher selling costs to support expansion in tier 2 and tier 3 cities and the e-commerce platform in China, as well as larger losses in India. Segment operating earnings were negatively impacted by approximately \$2 million due to China currency translation. As a result of these factors, second quarter 2016 operating margin of 13.8 percent was modestly lower than the 14.0 percent operating margin in 2015.

29. On August 8, 2016, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company's 2Q16 earnings and operating results, including for its China segment. The Form 10-Q also stated that A.O. Smith's China sales were expected to grow throughout 2016, stating in pertinent part:

Sales in our Rest of World segment grew approximately eight percent in the second quarter of 2016, as a result of ten percent sales growth in China. Sales in our Rest of World segment grew approximately ten percent in first half of 2016. China sales in local currency grew approximately 16 percent in both the second quarter and first half of 2016 compared to the same periods last year. ***We expect full year 2016 sales in China to grow at a rate of approximately 15 percent in local currency driven by expected continued overall water heater market growth, market share gains, improved product mix and water treatment product growth at a rate significantly higher than 15 percent.***

30. On October 26, 2016, A.O. Smith issued a press release announcing "record sales and strong earnings increases" for 3Q16 of \$683.9 million and \$83.2 million, respectively. The press release stated that the increases were largely due to success in the Company's China operations, stating that "continued strong demand for the company's water heating and water treatment products in China drove sales in the third quarter nine percent higher compared with sales of \$625.1 million during the same period in 2015" and that "[s]ales increased 11 percent when adjusted for the impact from the stronger U.S. dollar against the Chinese and Canadian currencies." The press release continued in pertinent part:

“A.O. Smith delivered record sales and strong earnings increases thanks to our global growth strategy,” commented Ajita Rajendra, chairman and chief executive officer.

* * *

Rest of World segment

Rest of World sales, which is primarily comprised of China, Europe and India, improved 11 percent in the third quarter of 2016 to \$240.3 million. ***Sales of A.O. Smith branded water heaters and water treatment products in China increased 11 percent in U.S. dollars and 17 percent in local currency.***

31. On November 8, 2016, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company’s 3Q16 earnings and operating results, including for its China segment. The Form 10-Q reiterated that A.O. Smith was experiencing strong sales in China, stating in pertinent part:

Sales in our Rest of World segment grew approximately 11 percent in the third quarter of 2016, as a result of 11 percent sales growth in China. ***China sales in local currency grew approximately 17 percent in the third quarter compared to the same period last year. We expect full year 2016 sales in China to grow at a rate in excess of 16 percent in local currency driven by expected continued overall water heater market growth, market share gains, improved product mix and growth in sales of water treatment products at a rate significantly higher than 16 percent.***

32. On February 2, 2017, A.O. Smith issued a press release announcing “record sales of \$2.69 billion and record net earnings of \$326.5 million, or \$1.85 per share, for 2016 compared with net earnings of \$282.9 million, or \$1.58 per share, the previous year.” Again, the Company touted its success in China as the primary driver of the results, stating that “[s]ales in China grew 13 percent during 2016 and grew 19 percent when the impact from the stronger U.S. dollar is excluded.” The press release continued in pertinent part:

“A.O. Smith had another excellent year, setting sales and earnings records thanks to continued healthy end markets for our consumer products in China and for boilers and commercial water heaters in the U.S.,” Ajita G. Rajendra, chairman and chief executive officer, observed.

“In addition to the launch of several new products in China, *we saw an increase in China water treatment sales of nearly 35 percent*,” Rajendra continued.

* * *

Rest of World segment

Sales of this segment increased 11 percent in 2016 to \$965.6 million compared with 2015 sales of \$866.1 million. *China sales increased 13 percent and grew 19 percent when the impact from the stronger U.S. dollar is excluded. An increase in demand for water heaters and residential air purification products and 35 percent growth in A.O. Smith-branded water treatment product sales contributed to the strong growth in China.*

Operating earnings for this segment increased 14 percent in 2016 to \$129.1 million compared with \$113.0 million earned the prior year. Higher sales were partially offset by increased China selling, general and administrative (SG&A) expenses. Higher selling costs in China to support expansion in tier 2 and 3 cities, as well as higher advertising costs to support brand building, were the primary drivers of higher segment SG&A expenses. Currency translation reduced China earnings by approximately \$8 million. Segment operating margin was slightly higher at 13.4 percent in 2016 compared with 2015 segment operating margin of 13.0 percent.

Segment sales for the fourth quarter 2016 of \$268.1 million were 16 percent higher than the same period in the previous year. Sales in China increased 24 percent in the quarter, excluding the impact from the strengthening U.S. dollar. Continued demand for the company’s consumer products in the region led by water treatment and air purification products contributed to the strong sales growth.

Segment operating earnings of \$38.2 million were 34 percent higher in the fourth quarter of 2016 than in the same three-month period in 2015, driven by the impact from higher China sales. Higher selling costs to support growth, higher advertising costs to support brand building and \$2.5 million due to currency translation, all in China, partially offset higher China sales. Segment operating margin for the period at 14.2 percent was higher than the fourth quarter of 2015 at 12.3 percent due to higher gross margins primarily driven by a more profitable mix of China products and improved profitability associated with sales of water treatment products in the 2016 quarter.

33. On February 17, 2017, A.O. Smith filed a Form 10-K, signed by Defendants Rajendra and Kita, which reiterated the Company’s 4Q16 and FY16 earnings and operating results,

including for its China segment. The Form 10-K touted A.O. Smith's experience and market dominance in China, claiming the Company had grown to become "one of the leading suppliers of water heaters to the residential market in China." It continued in pertinent part:

REST OF WORLD

Sales in our Rest of World segment increased 11.5 percent, or \$99.5 million, in 2016 compared with the prior year. ***A 12.5 percent increase in sales in China to \$887.9 million was the primary source of the increase. Excluding the appreciation of the U.S. dollar in 2016, sales in China increased 18.9 percent in 2016.***

We have operated in China for more than 20 years. In that time, we have been aggressively expanding our presence while building A.O. Smith brand recognition in the residential and commercial markets. The Chinese water heater market is predominantly comprised of electric wall-hung, gas tankless and solar water heaters. ***We believe we are one of the leading suppliers of water heaters to the residential market in China,*** with a broad product offering including electric, gas, gas tankless, heat pump and solar units as well as combi boilers. Primarily for Asia, we also manufacture and market water treatment products and air purification products.

We sell water heaters in more than 9,000 retail outlets in China, of which over 2,500 exclusively sell our products. Our water treatment products and air purification products are sold in over 6,500 and 2,500 retail outlets in China, respectively. Our e-commerce sales continue to grow in China reaching nearly \$200 million in 2016.

34. The Form 10-K also stated that the primary driver of A.O. Smith's favorable 2016 financial and operating results was the Company's success in China. It stated in pertinent part:

RESULTS OF OPERATIONS

Our sales in 2016 were a record \$2,685.9 million surpassing 2015 sales of \$2,536.5 million by 5.9 percent. Excluding the impact from the appreciation of the U.S. dollar against the Chinese currency that occurred in 2016, our sales grew approximately eight percent in 2016. ***The increase in sales in 2016 was primarily due to higher sales in China of water heaters, residential air purification products,*** as well as 35 percent sales growth of A.O. Smith-branded water treatment products. ***Sales in China grew 12.5 percent in 2016, and excluding the impact of the appreciation of the U.S. dollar, sales in China increased 18.9 percent in 2016.***

35. In addition, the 2016 Form 10-K stated that the Company was positioned to continue to grow its China business throughout 2017, stating in pertinent part:

Outlook

We expect our sales in China will continue to grow at a rate of approximately 15 percent in local currency terms in 2017 led by continued strong sales growth of water heaters, water treatment and air purification products. We project continued declines in the Chinese currency compared to the U.S. dollar resulting in a five percent, or \$40 million, headwind in 2017 sales, compared with the average rate in 2016

Combining all these factors, we expect sales growth of between eight and 9.5 percent in 2017 and sales growth of between 9.5 and 11 percent measured in local currency in 2017 and earnings to be in the range of \$1.98 to \$2.08 per share for 2017. This does not include the potential impact of future acquisitions.

36. On April 27, 2017, A.O. Smith issued a press release again announcing “record” first quarter results on the back of purportedly strong China demand. The press release stated that the Company had achieved “first quarter net earnings of \$87.7 million or \$.50 per share on record first quarter sales of \$740.0 million.” It continued in pertinent part:

Sales in the quarter ended March 31 grew approximately 16 percent compared with sales of \$636.9 million during the same period in 2016. *Sales in China grew 20 percent during the first quarter 2017 or grew 27 percent when excluding the impact from the stronger U.S. dollar.*

“The strength of both the U.S. water heater industry and *our consumer product demand in China is encouraging,*” noted Chairman and Chief Executive Officer Ajita G. Rajendra. *“With double digit sales growth in both operating segments in the quarter, A.O. Smith is starting the year on solid footing.”*

* * *

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately 19 percent in the first quarter of 2017 to \$259.5 million from \$217.4 million in the year ago quarter. *Continued strong customer demand for the company’s premium products and a pre-buy in advance of a price increase related to steel and other cost inflation, drove China sales 27 percent higher as measured in local currency and over 20 percent higher as measured in U.S.*

dollars. Water treatment sales in China grew over 50 percent and air purification sales grew over 80 percent in local currency.

37. On May 8, 2017, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company's 1Q17 earnings and operating results, including for its China segment. The Form 10-Q highlighted A.O. Smith's product sales in China, stating in pertinent part:

Sales in our Rest of World segment grew approximately 19 percent in the first quarter of 2017 as a result of 20 percent sales growth in China. China sales in local currency terms grew approximately 27 percent in the first quarter compared to the same period last year driven by higher demand for our consumer products and by a pre-buy by our customers in advance of a price increase related to steel and other costs.

We expect full year 2017 sales in China to grow at a rate of over 15 percent in local currency terms driven by expected continued overall water heater market growth, market share gains, improved product mix and water treatment product sales growth at a rate significantly higher than 15 percent.

38. On July 26, 2017, A.O. Smith issued a press release again announcing "record second quarter net earnings" of \$92.4 million "on nearly 11 percent increase in sales." Once again the favorable results were attributable to the surge in Chinese demand for its products that the Company was purportedly experiencing. The press release continued in pertinent part:

"We continued to see solid demand for our premium products in China with sales growth in local currency of 20 percent, led by water treatment and air purification," commented Ajita G. Rajendra, chairman and chief executive officer. "Sales of our commercial water heaters and boilers in North America continued to be strong."

* * *

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately 14 percent in the second quarter of 2017 to \$272.8 million from \$239.8 million in the year-ago quarter. ***Continued strong customer demand for the company's premium products, as well as a price increase announced in the first quarter of 2017, drove China sales 20 percent higher in local currency.***

A.O. Smith branded water treatment sales grew 40 percent in local currency in the second quarter of 2017, and air purification product sales quadrupled.

39. On August 8, 2017, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company's 2Q17 earnings and operating results, including for its China segment. The Form 10-Q highlighted A.O. Smith's product sales in China, stating in pertinent part:

Sales in our Rest of World segment grew approximately 14 percent in the second quarter of 2017 compared to the same period last year as a result of 15 percent sales growth in China. ***China sales in local currency terms grew approximately 20 percent in the second quarter driven by higher demand for our consumer products, led by water treatment and air purification, and pricing actions due to higher steel and other costs.***

We expect full year 2017 sales in China to grow compared to 2016 at a rate of almost 17 percent in local currency terms driven by expected continued overall water heater market growth, market share gains, higher average selling prices and water treatment product sales growth at a rate significantly higher than 15 percent.

40. On October 25, 2017, A.O. Smith issued a press release again announcing "record third quarter net earnings" of \$93.7 million "on 10 percent increase in sales." Once again the press release stated that China was a driver of the growth, with Defendant Rajendra quoted as saying: "Sales of our consumer products in China, particularly water treatment and air purification, contributed to our growth, as well." The press release continued in pertinent part:

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, increased approximately 12 percent in the third quarter of 2017 to \$270.1 million compared with the year-ago quarter. ***Higher demand for the company's premium consumer products, as well as pricing actions due to higher steel and other costs, drove China sales up nearly 13 percent.***

41. On November 6, 2017, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company's 3Q17 earnings and operating results, including

for its China segment. The Form 10-Q stated that the Company's China sales were expected to continue to grow, stating:

In our Rest of World segment, we expect full year 2017 sales in China to grow compared to 2016 at a rate of over 15 percent in local currency terms driven by expected continued overall water heater market growth, market share gains, improved product mix and water treatment product sales growth at a rate significantly higher than 15 percent.

It continued in pertinent part:

Rest of World

Sales in our Rest of World segment were \$270.1 million in the third quarter of 2017 or \$29.8 million higher than sales of \$240.3 million in the third quarter of 2016. Sales in the first nine months of 2017 were \$802.4 million or \$104.8 million higher than sales of \$697.6 million in the first nine months of 2016. ***China sales grew approximately 13 percent and 20 percent in local currency terms in the third quarter and first nine months of 2017, respectively, compared to same periods in the prior year, primarily due to higher sales of consumer products, particularly water treatment and air purification products.*** Sales in China in both periods of 2017 also benefitted from pricing actions announced earlier this year due to higher steel and other costs. ***China sales of A.O. Smith branded water treatment products grew 31 percent and China sales of air purification products doubled in the first nine months of 2017, compared to the same period last year.***

Rest of World segment earnings were \$33.8 million in the third quarter of 2017 or approximately nine percent higher than segment earnings of \$31.1 million in the third quarter of 2016. Segment earnings in the first nine months of 2017 of \$98.8 million were approximately nine percent higher than segment earnings of \$90.9 million in the first nine months of 2016.

42. On January 30, 2018, A.O. Smith announced "record sales of \$3 billion in 2017."

The press release stated that "[s]ales in China grew 16 percent during 2017 and grew 18 percent when the impact from the stronger U.S. dollar is excluded," which helped the Company achieve adjusted net earnings of \$378.3 million. The press release continued in pertinent part:

"2017 marked another record year for A.O. Smith," Ajita G. Rajendra, chairman and chief executive officer, announced. ***"Our double-digit sales growth in 2017 was driven by continued strong demand for our consumer products in China and positive end markets for our water heaters and boilers in North America. China sales exceeded the \$1 billion milestone and were driven by 35 percent growth in***

water treatment sales and a near doubling of air purification sales. China on-line sales reached \$250 million in 2017.”

* * *

Rest of World segment

Sales of this segment increased 16 percent in 2017 to \$1.12 billion compared with 2016 sales of \$965.6 million. ***China sales increased 16 percent and grew 18 percent when the impact from the stronger U.S. dollar is excluded.*** An increase in demand for the company’s consumer products in the region, led by water treatment and air purification products, and pricing actions primarily due to higher steel costs and higher fees paid to installers contributed to the strong sales growth in China. Water heater and water treatment sales in India increased approximately \$8 million or over 40 percent in 2017 compared with 2016.

Earnings for this segment increased 16 percent in 2017 to \$149.3 million compared with \$129.1 million earned the prior year. Higher sales in China, including the price increase, were partially offset by higher steel costs, higher fees paid to installers and increased SG&A costs. Expansion of water treatment and air purification product retail outlets in tier 2 and 3 cities, higher advertising related to brand building in the company’s newer product categories and higher water treatment product development engineering costs were the primary drivers of higher SG&A in China. Segment margin of 13.4 percent in 2017 was essentially the same as the prior year.

Segment sales for the fourth quarter 2017 of \$313.8 million were 17 percent higher than the same period in the previous year. ***Sales in China increased 16 percent in the quarter,*** driven by pricing actions primarily due to higher steel costs, higher fees paid to installers and higher demand for the company’s consumer products in the region. Sales in India grew over 40 percent compared with the same period in 2016.

Segment earnings of \$50.8 million were 33 percent higher in the fourth quarter of 2017 compared with the same three-month period in 2016, driven by the impact from higher India sales and China sales, including the price increase. Higher steel costs and higher fees paid to installers partially offset the impact of higher China sales. Segment margin for the period was 16.2 percent compared with 14.2 percent in 2016, primarily due to improved margin for the company’s water treatment products sold in China, lower China selling and advertising costs as a percent of sales and improved performance in India.

43. On February 16, 2018, A.O. Smith filed a Form 10-K, signed by Defendants Rajendra and Kita, which reiterated the Company’s 4Q17 and FY17 earnings and operating results,

including for its China segment. The Form 10-K touted A.O. Smith's experience and market dominance in China, claiming the Company had grown to become "one of the leading suppliers of water heaters to the residential market in China." It continued in pertinent part:

REST OF WORLD

Sales in our Rest of World segment increased 15.6 percent, or \$150.7 million, in 2017 compared with the prior year. *A 15.9 percent increase in sales in China to over \$1 billion was the primary source of the increase. Excluding the appreciation of the U.S. dollar, sales in China increased 17.9 percent in 2017.*

We have operated in China for more than 20 years. In that time, we have been aggressively expanding our presence while building A.O. Smith brand recognition in the residential and commercial markets. The Chinese water heater market is predominantly comprised of electric wall-hung, gas tankless, combi-boiler and solar water heaters. *We believe we are one of the leading suppliers of water heaters to the residential market in China in dollar terms, with a broad product offering including electric, gas tankless, heat pump and combi boilers as well as solar units.* We also manufacture and market water treatment products and air purification products, primarily in China.

We sell water heaters in more than 8,000 retail outlets in China, of which over 2,900 exclusively sell our products. Our water treatment products and air purification products are sold in over 7,400 and 3,500 retail outlets in China, respectively. Our e-commerce sales continued to grow in China, to approximately \$250 million in 2017.

44. The Form 10-K also stated that the primary driver of A.O. Smith's favorable 2017 financial and operating results was the Company's success in China. It stated in pertinent part:

RESULTS OF OPERATIONS

Our sales in 2017 were a company record \$2,997 million surpassing 2016 sales of \$2,686 million by 11.6 percent. *The increase in sales in 2017 was primarily due to higher sales in China* as well as higher sales of water heaters and boilers in North America. Sales in China grew 15.9 percent to over \$1 billion in 2017, and excluding the impact of the appreciation of the U.S. dollar, sales in China increased 17.9 percent in 2017.

45. On April 25, 2018, A.O. Smith issued a press release announcing “double digit earnings growth on record first quarter sales” of \$788 million which contributed to net quarterly earnings of \$98.8 million. The press release continued in pertinent part:

Rest of World segment

First quarter sales for the Rest of World segment increased 13 percent over the 2017 first quarter to \$293.8 million. *In China, sales increased 13 percent* including approximately \$21 million of benefit from currency translation due to the appreciation of the China currency compared with the prior year. *In local currency terms, sales grew four percent* and were negatively impacted by a pre-buy in the fourth quarter of 2017. Pricing actions in mid-2017, primarily due to higher steel and installation costs, as well as higher demand for gas tankless water heaters and water treatment products, contributed to higher sales and were partially offset by a significant decline in air purification product sales primarily due to improved air quality in China.

First quarter segment earnings of \$36.1 million were approximately 11 percent higher than the \$32.5 million earned in last year’s first quarter. Higher China sales, including the price increase, were partially offset by higher steel costs, selling and engineering expenses associated with new product development and the negative impact to earnings from lower air purification product sales.

46. On May 7, 2018, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company’s 1Q18 earnings and operating results, including for its China segment. The Form 10-Q stated that “[s]ales in the first quarter of 2018 were \$788 million, approximately 6.5 percent higher than sales of \$740 million in the first quarter of 2017” “*primarily due to continued demand for our consumer products in China* and positive end markets for our boilers in North America.” The Form 10-Q also stated that the Company’s China sales were expected to continue to grow, stating:

In our Rest of World segment, *we expect sales in China to grow in 2018 at a rate of approximately nine to ten percent in local currency, or over 14 percent in U.S. dollar terms*, as we believe tankless water heater market growth, geographic expansion and growth in sales of our water treatment products will contribute to our growth.

47. On July 25, 2018, A.O. Smith issued a press release announcing “double-digit sales and earnings growth in second quarter” of \$833.3 million and \$92.4 million, respectively. The press release continued in pertinent part:

Rest of World segment

Second quarter sales for the Rest of World segment increased 13 percent to \$308.1 million compared with sales of \$272.8 million in the 2017 second quarter. Sales in China increased 12 percent in the second quarter, including a currency translation benefit of approximately \$19 million. China sales grew four percent in local currency. Higher sales of gas tankless water heaters and water treatment products, as well as pricing actions effective in mid-2017, were partially offset by lower sales of air purification products and e-commerce sales compared with the prior year.

48. On August 6, 2018, A.O. Smith filed a Form 10-Q, signed by Defendants Rajendra and Kita, which reiterated the Company’s 2Q18 earnings and operating results, including for its China segment.

49. On October 30, 2018, A.O. Smith issued a press release announcing “third quarter net earnings of \$104.6 million or \$0.61 per share on third quarter sales of \$754.1 million.” While the press release discussed “weaker housing growth in China,” it quoted Defendant Wheeler, who had recently replaced Defendant Rajendra as CEO, as stating: “A bright spot in China was our sales of water treatment products, which grew significantly in the quarter ... This growth reaffirms our belief of the growing consumer desire for safe drinking water in that country, as well as our capabilities to bring the best products to the market.” It continued in pertinent part:

Rest of World segment

Sales of this segment, which is primarily comprised of China, Europe and India, *increased approximately one percent in the third quarter of 2018 to \$274.1 million compared with the year-ago quarter. Higher sales of water treatment and air purification products in China were partially offset by a decline in electric water heater sales compared with the prior year.* Currency translation reduced sales by approximately \$6 million compared with the third quarter 2017.

Segment earnings were approximately 16 percent higher at \$39.1 million compared with the third quarter of 2017, primarily due to lower expenses associated with employee incentive programs in China and smaller losses in India. As a result, third quarter 2018 segment margin of 14.3 percent was significantly higher than the 12.5 percent segment margin achieved in the same period in 2017.

50. On November 8, 2018, A.O. Smith filed a Form 10-Q, signed by Defendants Wheeler and Kita, which reiterated the Company's 3Q18 earnings and operating results, including for its China segment. The Form 10-Q continued in pertinent part:

In our Rest of World segment, ***we expect sales in China to grow in 2018 at a rate of three percent in local currency terms, and five percent in U.S. dollar terms,*** lower than our previous guidance due to slower than expected housing growth caused by deteriorating consumer confidence related to a weakening economy

Combining all of these factors, ***we expect our consolidated sales to grow approximately seven percent in 2018.***

We preliminarily project our 2019 sales growth in China in local currency will be three percent compared to 2018, as inventory levels remain elevated into 2019 due to slower housing growth. Further, we expect headwinds of approximately \$50 million to sales and over \$7 million to earnings in China due to the depreciation of the China currency compared to the U.S. dollar in 2019 compared to 2018. Combining our China projection, with the benefit of a full year of pricing actions for North America water heaters, a full year of sales of water treatment products to Lowe's and our projection that the remainder of our products will have sales growth similar to 2018, ***we project our organic growth in 2019 will be 5.5 to seven percent in local currency terms and four to 5.5 percent in U.S. dollar terms.***

51. On January 29, 2019, A.O. Smith issued a press release announcing "record sales and net earnings in 2018" of \$3.2 billion and \$44.2 million, respectively. The press release stated that the growth was driven, in part, by "water treatment products in China" as "[t]otal China sales grew approximately four percent." The release quoted Defendant Wheeler as highlighting the Company's exponential growth in global water treatment sales, which had been driven primarily by sales in China: "In seven years we have been able to grow our global water treatment sales from approximately \$35 million to \$400 million." It continued in pertinent part:

Rest of World segment

Sales of this segment increased five percent in 2018 to \$1.2 billion compared with 2017 sales. China sales increased nearly two percent on a local currency basis.

The Chinese currency favorably impacted the translation of China sales by approximately \$23 million. In China, higher water treatment product sales were partially offset by lower sales of electric water heaters and air purification products. Water heater and water treatment product sales in India increased approximately \$8 million, or over 30 percent, in 2018 compared with 2017.

52. On February 15, 2019, A.O. Smith filed a Form 10-K, signed by Defendants Wheeler and Kita, which reiterated the Company's 4Q18 and FY18 earnings and operating results, including for its China segment. The Form 10-K highlighted A.O. Smith's experience and market dominance in China, claiming the Company had grown to become "one of the leading suppliers of water heaters to the residential market in China." It continued in pertinent part:

REST OF WORLD

We have operated in China for more than 20 years. In that time, we have been aggressively expanding our presence while building A.O. Smith brand recognition in the residential and commercial markets. The Chinese water heater market is predominantly comprised of electric wall-hung, gas tankless, combi-boiler, heat pump and solar water heaters. ***We believe we are one of the leading suppliers of water heaters to the residential market in China in dollar terms.*** We manufacture and market water treatment products, primarily residential reverse osmosis products. We also manufacture and market air purification products in China.

We sell water heaters in more than 9,000 retail outlets in China, of which over 2,800 exclusively sell our products. Our water treatment products and air purification products are sold in over 7,500 and 3,500 retail outlets in China, respectively.

53. The Form 10-K also stated that the primary driver of A.O. Smith's favorable 2018 financial and operating results was the Company's success in China. It stated in pertinent part:

RESULTS OF OPERATIONS

Our sales in 2018 were a Company record \$3,188 million surpassing 2017 sales of \$2,997 million by 6.4 percent. ***The increase in sales in 2018 was primarily due to pricing actions related to higher steel costs and higher sales of boilers and residential water heaters in the U.S. as well as higher sales of water treatment***

products in China. Our global water treatment sales grew to approximately \$400 million in 2018. Sales in China grew four percent in 2018. Excluding the impact of the appreciation of the U.S. dollar against the Chinese currency, our sales in China increased almost two percent in 2018. Our sales in 2017 were higher than 2016 sales of \$2,686 million by 11.6 percent, primarily due to higher sales in China as well as higher sales of water heaters and boilers in North America. Our sales in China grew 15.9 percent in 2017 to over \$1 billion, and excluding the impact of the appreciation of the U.S. dollar against the Chinese currency, sales in China grew 17.9 percent in 2017 compared to 2016.

54. The statements referenced in paragraphs 28-53 above were materially false and/or misleading when made because they failed to disclose adverse facts pertaining to the Company's business, operations and financial condition, which were known to or recklessly disregarded by Defendants as follows:

(a) that A.O. Smith had undisclosed business connections and entanglements with UTP through which it funneled up to 75% of its China product sales;

(b) that A.O. Smith had used UTP to engage in channel stuffing by artificially inflating inventories purportedly sold through distributors that were not based on consumer demand, thereby approximately doubling the normal level of inventory at such distributors;

(c) that A.O. Smith had used its UTP relationship to artificially inflate the sales figures it reported to investors by as much as 8% and to conceal worsening sales trends that the Company was experiencing in China;

(d) that A.O. Smith's sales growth had been primarily in lower margin products as its higher priced products were being undercut by competition in "second-tier" Chinese cities, causing the Company to experience significant margin pressures;

(e) that A.O. Smith had increased its cash reserves in China to over \$530 million in furtherance of its channel stuffing and sales manipulation scheme, encumbering the Company's ability to repatriate the cash or use it for capital expenditures; and

(f) that, as a result of (a)-(e) above, A.O. Smith's business, operations, and prospects were significantly worse than publicly represented and the Company was poised for sales and earnings declines in China, its most important international market.

55. In addition, Item 303 of SEC Regulation S-K, 17 C.F.R. § 229.303(a)(3)(ii) ("Item 303") required the 2016 Form 10-K, 2017 Form 10-K and 2018 Form 10-K to "[d]escribe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations." Defendants' failure to disclose their use of an undisclosed distribution partner to engage in channel stuffing and to artificially inflate A.O. Smith's China sales and earnings results was a violation of Item 303 because it was a known trend and uncertainty that was likely to, and did, have a material unfavorable impact on the Company's revenues and income from continuing operations.

The Truth Begins To Emerge

56. On April 30, 2019, A.O. Smith reported disappointing financial results for its first fiscal quarter of 2019. Quarterly sales declined 5% to \$748.2 million, while net quarterly earnings declined approximately 7% to \$89.3 million. The primary reasons for the disappointing results were adverse business trends in China and plummeting Chinese sales, which had been masked by Defendants' prior misstatements. Quarterly sales in A.O. Smith's Rest of World segment fell 21% to \$232.1 million, including an 18% decline in Chinese sales on a local currency basis. Even more shocking, quarterly earnings for the segment fell more than 65% year-over-year to only \$12.3 million.

57. On this news, the price of A.O. Smith common stock fell 6% to \$52.57 per share on abnormally high volume of over 4.8 million shares.

58. However, because investors did not know the full truth about A.O. Smith's use of an undisclosed distribution partner to inflate its earnings and sales results in China, the price of A.O. Smith stock remained artificially inflated. Instead, Defendants continued to conceal the scheme, for example by playing off, during an April 30, 2019 earnings call, the weakness in China as temporary and related to macro events with improvement expected in the second half of the year.

59. Then, on May 16, 2019, J Capital Research USA LLC issued a scathing report on A.O. Smith's China operations and undisclosed relationship with UTP (the "J Capital Report"). The 66-page report charged A.O. Smith with inflating its sales and earnings figures and concealing adverse business trends in China through its undisclosed distributor relationship with UTP. The report also stated that A.O. Smith's purported \$539 million in cash in China had been tied up in the scheme. The report summarized its findings in part as follows:

Pleading the fifth on China operations: Despite never appearing in the financial filings or being mentioned on conference calls, Jiangsu UTP Supply Chain is involved in almost every aspect of A.O. Smith's China business. The relationship is public knowledge in China. UTP's involvement spans the acquisition of raw materials, the hiring of labor, potentially co-owning factories, marketing, and most notably "accepting" inventory and financing AOS distributors. We estimate that UTP may be responsible for as much as 75% of AOS China sales.

The UTP relationship has obscured China business performance and financial statements: The UTP partnership has allowed AOS to inflate gross margins and mask the actual China revenue slowdown through distributor-financed channel stuffing. We also believe that the irreconcilable capex, R&D and asset inventory accounts are being used as cookie jars to preserve the "integrity" of the financial statements while hiding UTP's involvement. Our detailed distributor channel checks indicate China revenue will fall by as much as 21% in 2019 vs management's claims of a 6-8% decline.

Is the cash really there? We believe that A.O. Smith does not actually have access to \$539 mln that reportedly sits in China – about 84% of the company's total cash at yearend 2018. We have conducted dozens of interviews in China and believe that AOS may have used its cash for distributor loans to prop up sales. That would mean the money is in escrow and cannot be touched until loans are repaid. What's more,

distributor loans are at risk in a weakening market. Chinese distributors of AOS products - financially imperiled companies - are being financed at 18% to take AOS inventory, and many are holding six months of inventory. These companies are at risk of default - and AOS could be on the hook.

China headwinds are everywhere: In Q1, AOS reported a 66% drop in Rest of World earnings due to China declines but said the drop is temporary. We disagree. During China's boom years, AOS benefited from selling a premium product at a mid to high price point through direct channels in Tier 1 cities. To offset numerous steel and rental price increases, AOS has continuously increased the price of its heaters, until the appliances reached a price point unobtainable for some of the original purchase base. The higher-priced product has been a particularly poor fit for Tier 2-4 cities, the next leg of AOS's China growth strategy, and the price-sensitive online channel continues to take share from the direct channel. AOS has recently launched new products at their original price points, but these "startups" are just ramping up and will carry much lower margins for the foreseeable future. Distributors believe the new product releases are just a way to discount old stock and force new inventory into the channels. These product/channel challenges are presently being compounded by a weakening Chinese economy and the U.S.-China trade spat's impact on selling an American-branded product in China.

60. On this news, the price of A.O. Smith common stock fell 6% to \$45.12 per share on abnormally high volume of over 13.5 million shares.

61. Although the J Capital Report was issued by a research firm with an apparent short interest in A.O. Smith stock, the report was well documented and supported with photographs, "dozens" of witness interviews, government records and other information that supported its allegations. An additional research firm, Spruce Point Capital, also issued a series of tweets supporting the report's allegations and conclusions.

62. While A.O. Smith issued a press release purportedly denying the allegations, in so doing it admitted that the Company did in fact have substantial business interests in China with UTP. Following this unsatisfactory response by the Company, the price of A.O. Smith stock did not recover, but instead continued to fall closing at \$43.26 per share on May 20, 2019, 36% below the Class Period high of more than \$68 per share. At least one analyst firm also subsequently

downgraded the stock. The market reaction to A.O. Smith's attempted denials lends further credibility to the J Capital Report.

63. As a result of Defendants' wrongful acts and omissions, Plaintiff and the Class purchased A.O. Smith common stock at artificially inflated prices and suffered significant losses and were damaged thereby.

VI. UNDISCLOSED ADVERSE FACTS

64. The market for A.O. Smith common stock was an open, well-developed and efficient market at all relevant times. As a result of the materially false and misleading statements and omissions described herein, A.O. Smith common stock traded at artificially inflated prices during the Class Period. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse non-public information and misrepresented the truth about the Company, as well as its business, accounting, financial operations and prospects, as alleged herein. Plaintiff and the other members of the Class purchased or otherwise acquired A.O. Smith common stock relying upon the integrity of the market price of the Company's securities and market information relating to A.O. Smith, and have been damaged thereby.

65. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and the other members of the Class.

VII. LOSS CAUSATION

66. During the Class Period, as detailed herein, the Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of A.O. Smith common stock and operated as a fraud or deceit on Class Period purchasers of A.O. Smith common stock by failing to disclose to investors that the Company's financial results were materially

misleading and misrepresented material information. When the Defendants' misrepresentations and fraudulent conduct were disclosed, the price of A.O. Smith common stock fell precipitously as the prior inflation came out of the Company's stock price. As a result of their purchases of A.O. Smith common stock during the Class Period, Plaintiff and the other Class members suffered economic loss.

67. By Defendants' failing to disclose the true state of the Company's business, investors were not aware of the true state of the Company's financial status. Therefore, the Defendants presented a misleading picture of A.O. Smith's business practices and procedures. Thus, instead of truthfully disclosing during the Class Period the true state of the Company's business, Defendants caused A.O. Smith to conceal the truth.

68. The declines in the price of A.O. Smith's common stock after the truth came to light were a direct result of the nature and extent of the Defendants' fraud finally being revealed to investors and the market. The timing and magnitude of A.O. Smith's common stock price decline negate any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to the Defendants' fraudulent conduct. The economic loss suffered by Plaintiff and the other Class members was a direct result of the Defendants' fraudulent scheme to artificially inflate the prices of A.O. Smith's common stock and the subsequent decline in the value of A.O. Smith's common stock when the Defendants' prior misrepresentations and other fraudulent conduct were revealed.

VIII. ADDITIONAL SCIENTER ALLEGATIONS

69. As alleged herein, the Individual Defendants acted with scienter in that the Individual Defendants knew that the public documents and statements issued or disseminated in

the name of the Company during the Class Period were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

70. As set forth herein, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding A.O. Smith, their control over, receipt and/or modification of A.O. Smith's allegedly materially misleading statements and omissions, and/or their positions with the Company which made them privy to confidential information concerning A.O. Smith, participated in the fraudulent scheme alleged herein.

**IX. APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD-ON-THE-MARKET DOCTRINE**

71. At all relevant times, the market for A.O. Smith common stock was an efficient market for the following reasons, among others:

- (a) A.O. Smith's stock met the requirements for listing, and was listed and actively traded, on the NYSE, a highly efficient and automated market;
- (b) As a public company, A.O. Smith filed periodic reports with the SEC and the NYSE;
- (c) A.O. Smith was followed by numerous securities analysts employed by major firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace; and
- (d) A.O. Smith regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire

services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services.

72. As a result of the foregoing, the market for A.O. Smith's common stock reasonably promptly digested current information regarding A.O. Smith from all publicly available sources and reflected such information in the price of A.O. Smith's common stock. All purchasers of A.O. Smith common stock during the Class Period suffered similar injury through their purchases of A.O. Smith common stock at artificially inflated prices, and a presumption of reliance applies.

73. A Class-wide presumption of reliance is also appropriate in this action under the United States Supreme Court holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against Defendants are predicated upon omissions of material fact for which there is a duty to disclose. As this action involves Defendants' failure to disclose material adverse information regarding A.O. Smith's business practices, operations and financial performance, legal compliance, and customer satisfaction -- information that Defendants were obligated to disclose during the Class Period but did not -- positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered such information important in the making of investment decisions.

X. NO SAFE HARBOR

74. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the false and misleading statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be

characterized as forward-looking, they were not identified as “forward-looking statements” when made, and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

75. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of A.O. Smith who knew that the statement was false when made.

XI. COUNTS

COUNT I For Violations Of Section 10(b) Of The Exchange Act And SEC Rule 10b-5 Promulgated Thereunder (Against All Defendants)

76. Plaintiff repeats and re-alleges each and every allegation set forth above as if fully set forth herein.

77. This Count is asserted on behalf of all members of the Class against Defendants A.O. Smith, Rajendra, Wheeler and Kita for violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5.

78. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew were, or they deliberately disregarded as, misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

79. Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 in that they: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material

facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices, and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of A.O. Smith common stock during the Class Period.

80. Defendants, individually and in concert, directly and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct that operated as a fraud and deceit upon Plaintiff and the other members of the Class; made various untrue and/or misleading statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; made the above statements intentionally or with a severely reckless disregard for the truth; and employed devices and artifices to defraud in connection with the purchase and sale of A.O. Smith common stock, which were intended to, and did: (a) deceive the investing public, including Plaintiff and the other members of the Class, regarding, among other things, A.O. Smith's business and operations; (b) artificially inflate and maintain the market price of A.O. Smith common stock; and (c) cause Plaintiff and the other members of the Class to purchase the Company's common stock at artificially inflated prices, and to suffer losses when the true facts became known.

81. Defendants A.O. Smith, Rajendra, Wheeler, and Kita are liable for all materially false and misleading statements made during the Class Period, as alleged above.

82. As described above, Defendants acted with scienter throughout the Class Period, in that they acted either with the intent to deceive, manipulate, or defraud, or with severe recklessness. The misrepresentations and omissions of material facts set forth herein, which presented a danger

of misleading buyers of A.O. Smith stock, were either known to the Defendants or were so obvious that the Defendants should have been aware of them.

83. Plaintiff and the Class have suffered damages in that, in direct reliance on the integrity of the market, they paid artificially inflated prices for A.O. Smith common stock, which inflation was removed from its price when the true facts became known. Plaintiff and the Class would not have purchased A.O. Smith common stock at the prices they paid, or at all, if they had been aware that the market price had been artificially and falsely inflated by these Defendants' misleading statements.

84. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages attributable to the material misstatements and omissions alleged herein in connection with their purchases of A.O. Smith common stock during the Class Period.

COUNT II
For Violations Of Section 20(a) Of The Exchange Act
(Against the Individual Defendants)

85. Plaintiff repeats and re-alleges each and every allegation set forth above as if fully set forth herein.

86. This Count is asserted on behalf of all members of the Class against the Individual Defendants for violations of Section 20(a) of the Exchange Act, 15 U.S.C. § 78t(a).

87. During their tenures as officers of A.O. Smith, each of these Defendants was a controlling person of the Company within the meaning of Section 20(a) of the Exchange Act. By reason of their positions of control and authority as officers of A.O. Smith, these Defendants had the power and authority to direct the management and activities of the Company and its employees, and to cause the Company to engage in the wrongful conduct complained of herein. These

Defendants were able to and did control, directly and indirectly, the content of the public statements made by A.O. Smith during the Class Period, including its materially misleading financial statements, thereby causing the dissemination of the false and misleading statements and omissions of material facts as alleged herein.

88. In their capacities as senior corporate officers of the Company, and as more fully described above, the Individual Defendants had direct involvement in the day-to-day operations of the Company, in reviewing and managing its regulatory and legal compliance, and in its accounting and reporting functions. The Individual Defendants signed the Company's SEC filings during the Class Period, and were directly involved in providing false information and certifying and approving the false statements disseminated by A.O. Smith during the Class Period. As a result of the foregoing, Defendants Rajendra, Wheeler and Kita as a group, and individually, were controlling persons of A.O. Smith within the meaning of Section 20(a) of the Exchange Act.

89. As set forth above, A.O. Smith violated Section 10(b) of the Exchange Act by its acts and omissions as alleged in this Complaint.

90. By virtue of their positions as controlling persons of A.O. Smith and as a result of their own aforementioned conduct, Defendants Rajendra, Wheeler and Kita are liable pursuant to Section 20(a) of the Exchange Act, jointly and severally with, and to the same extent as, the Company is liable under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, to Plaintiff and the other members of the Class who purchased or otherwise acquired A.O. Smith securities. Moreover, as detailed above, during the respective times these Defendants served as officers of A.O. Smith, each of these Defendants culpably participated in the material misstatements and omissions made by A.O. Smith.

91. As a direct and proximate result of these Defendants' conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchase or acquisition of A.O. Smith common stock.

XII. PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment as follows:

- (a) Declaring the action to be a proper class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of the Class defined herein;
- (b) Awarding all damages and other remedies available under the Exchange Act in favor of Plaintiff and all members of the Class against Defendants in an amount to be proven at trial, including interest thereon;
- (c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including attorneys' fees and experts' witness fees and other costs; and
- (d) Awarding such other relief as this Court deems appropriate.

XIII. JURY DEMAND

Plaintiff hereby demands a trial by jury on all issues so triable.

Dated: August 19, 2019.

Respectfully submitted,

SAXENA WHITE P.A.

By: /s/ David R. Kaplan

David R. Kaplan
Brandon Marsh
12750 High Bluff Drive, Suite 475
San Diego, CA 92130
Telephone: (858) 997-0860
Facsimile: (858) 369-0096
dkaplan@saxenawhite.com
bmarsh@saxenawhite.com

SAXENA WHITE P.A.

Joseph E. White, III
Lester R. Hooker
Dianne M. Pitre
150 East Palmetto Park Road, Suite 600
Boca Raton, FL 33432
Telephone: (561) 394-3399
Facsimile: (561) 394-3382
jwhite@saxenawhite.com
lhooker@saxenawhite.com
dpitre@saxenawhite.com

SAXENA WHITE P.A.

Steven B. Singer
10 Bank Street, 8th Floor
White Plains, NY 10606
Telephone: (914) 437-8551
ssinger@saxenawhite.com

Attorneys for Plaintiff

CROSS LAW FIRM, S.C.

MARY C. FLANNER
SBN: 1013095
Nola J. Hitchcock Cross
SBN: 1015817
The Lawyers' Building
845 N. 11th Street
Milwaukee, WI 53233
(414) 224-0000 (phone)
(414) 273-7055 (facsimile)
mflanner@crosslawfirm.com
njhcross@crosslawfirm.com

Local Counsel for Plaintiff

CERTIFICATION AND AUTHORIZATION

I, James D. Love, on behalf of the City of Birmingham Retirement and Relief System (“Birmingham”), hereby certify, as to the claims asserted under the federal securities laws, that:

1. I have reviewed the complaint in this matter, and I am authorized in my capacity as Assistant City Attorney of Birmingham to initiate litigation and to execute this Certification on behalf of Birmingham. I have authorized Saxena White P.A. to file a complaint and a lead plaintiff motion in this action or any related actions on Birmingham’s behalf.
2. Birmingham did not purchase the securities that are the subject of this action at the direction of counsel, or in order to participate in any action arising under the federal securities laws.
3. Birmingham is willing to serve as a representative party on behalf of the Class, including providing testimony at deposition and trial, if necessary.
4. Birmingham’s transactions in A.O. Smith Corporation common stock during the class period as specified in the complaint are set forth in the attached “Schedule A.”
5. Birmingham has sought to serve and was appointed as lead plaintiff and representative party on behalf of a class in the following actions under the federal securities laws filed during the three-year period preceding the date of this Certification:

City of Birmingham Ret. and Relief Sys. v. Credit Suisse Group AG,
No. 1:17-cv-10014 (S.D.N.Y.)

In re BRF S.A. Sec. Litig., No. 1:18-cv-02213 (S.D.N.Y.)

City of Birmingham Firemen's and Policemen's Supplemental Pension Sys. v. Ryanair Holdings plc, No. 1:18-cv-10330 (S.D.N.Y.)

Keippel v. Health Ins. Innovations, Inc., No. 8:19-cv-0421 (M.D. Fla.)

6. Birmingham has sought to serve as a lead plaintiff and representative party on behalf of a class in the following actions under the federal securities laws filed during the three-year period preceding the date of this Certification, but withdrew its motion for lead plaintiff, was not appointed lead plaintiff or the lead plaintiff motion is still pending:

Ollila v. Babcock & Wilcox Enterprises, Inc., No. 3:17-cv-00109
(W.D.N.C.)

Grodko v. Teva Pharmaceutical Indus. Ltd., No. 2:17-cv-03743
(E.D. Pa.)

Koch v. Healthcare Services Group, Inc., No. 2:19-cv-01227 (E.D. Pa.)

Scheller v. Nutanix, Inc., No. 3:19-cv-01651 (N.D. Cal.)

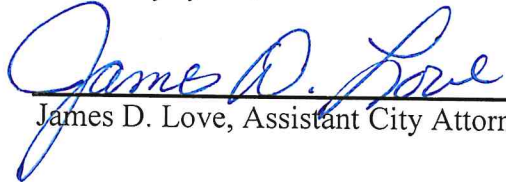
Batter et al. v. Hecla Mining Company, No. 1:19-cv-04883 (S.D.N.Y.)

7. Birmingham will not accept any payment for serving as a representative party on behalf of the Class beyond Birmingham's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the Class, as ordered or approved by the Court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 19th day of August, 2019.

*City of Birmingham Retirement
and Relief System*


James D. Love, Assistant City Attorney

SCHEDULE A**City of Birmingham Retirement and Relief System****Transactions in A.O. Smith Corporation****Period: July 26, 2016 through May 16, 2019**

| Common Stock Purchases | | |
|------------------------|--------|-------|
| Date | Shares | Price |

| | | |
|----------|--------|---------|
| 05/09/17 | 13,844 | \$54.91 |
| 06/23/17 | 100 | \$56.36 |
| 12/12/17 | 81 | \$61.23 |
| 03/20/18 | 6,097 | \$65.73 |
| 06/22/18 | 50 | \$60.27 |
| 02/05/19 | 7,053 | \$49.46 |
| 02/20/19 | 1,904 | \$52.22 |
| 03/05/19 | 4,872 | \$52.44 |
| 03/26/19 | 3,913 | \$51.58 |

| Common Stock Sales | | |
|--------------------|--------|-------|
| Date | Shares | Price |

| | | |
|----------|-------|---------|
| 11/15/16 | 100 | \$47.53 |
| 01/17/17 | 400 | \$47.87 |
| 08/21/18 | 6,448 | \$59.07 |
| 08/22/18 | 400 | \$58.44 |